Washington Outlook

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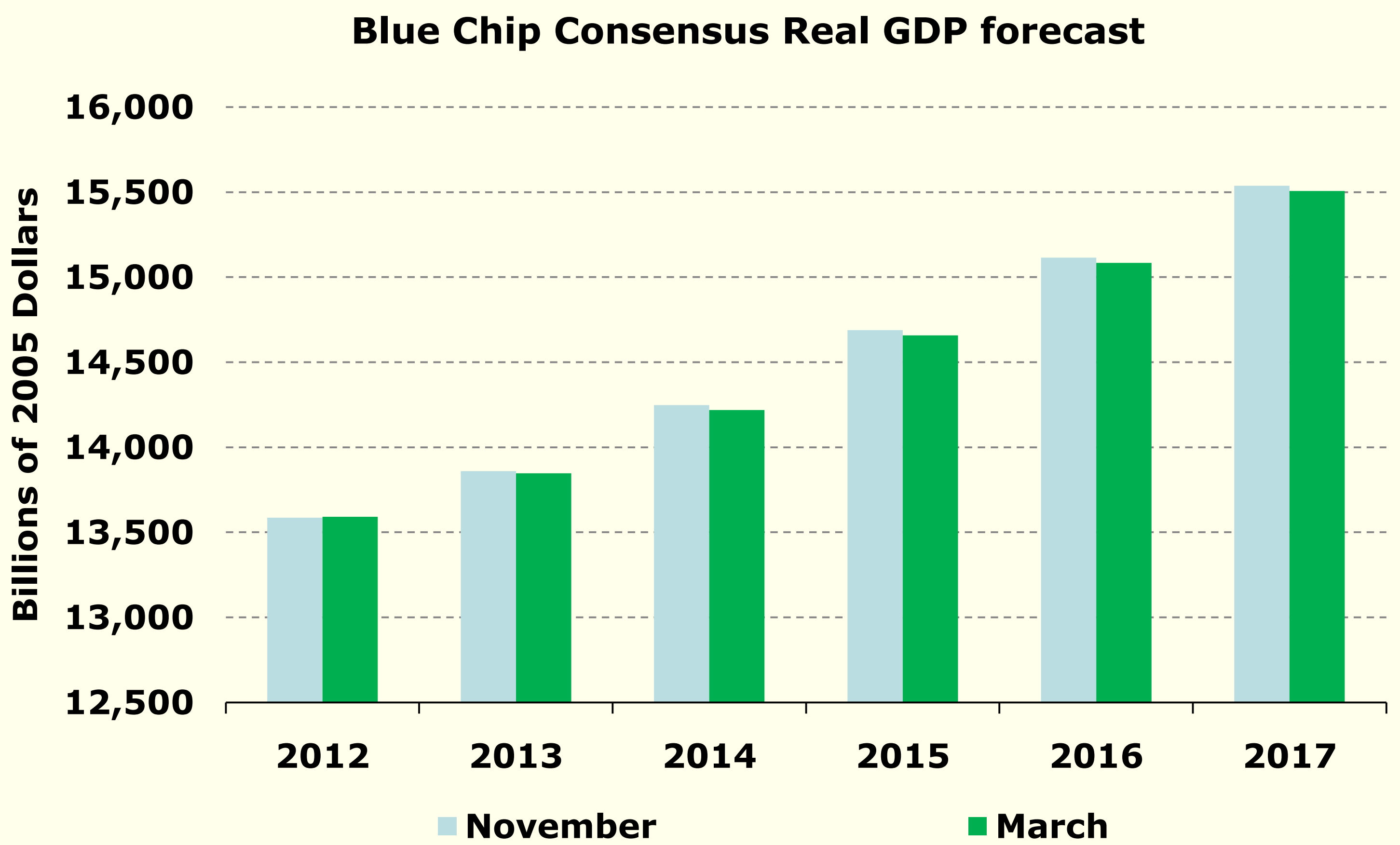
Olympia, Washington

Summary

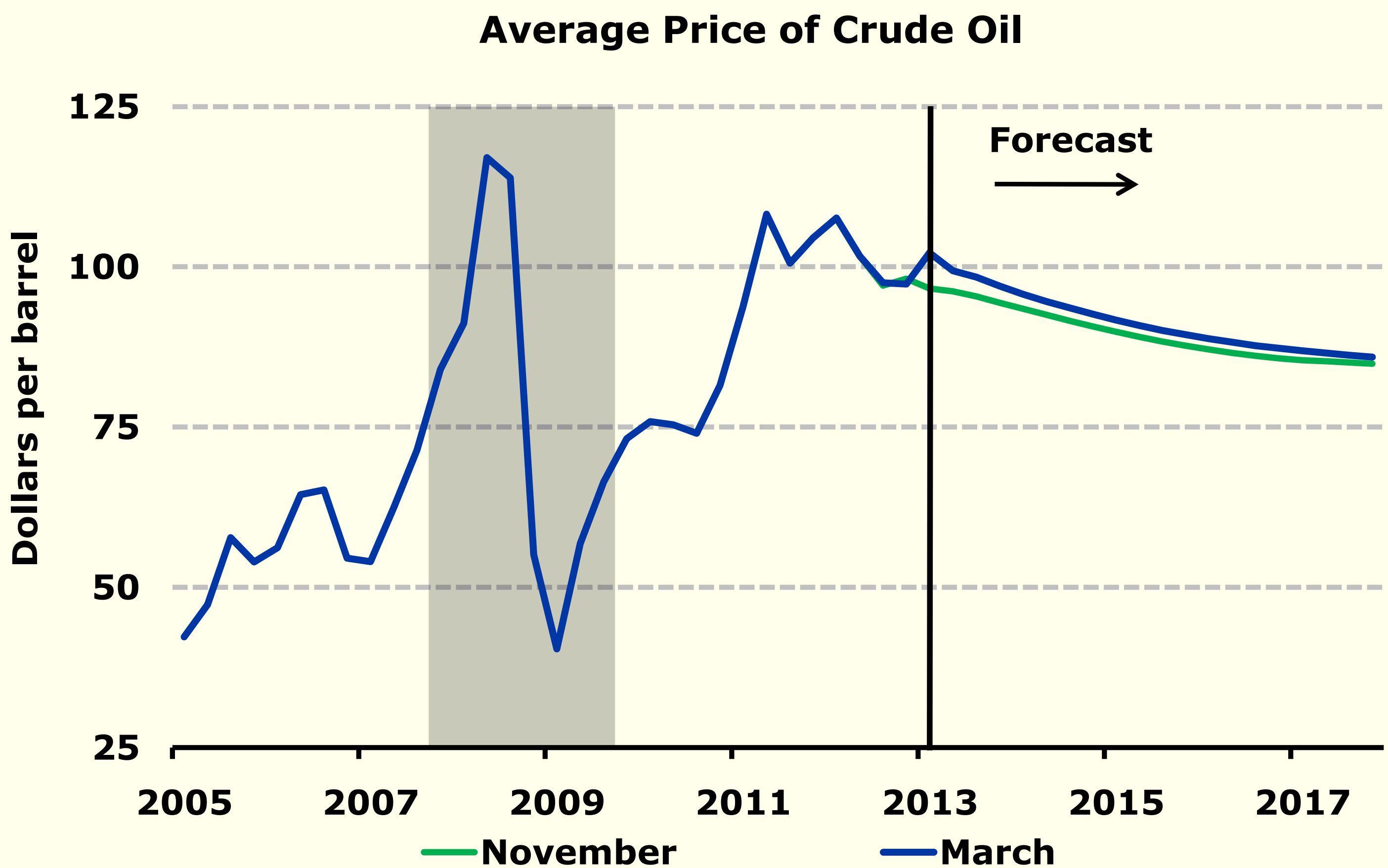
- The updated economic forecast is slightly weaker than the November forecast, with lower U.S. GDP and Washington personal income but higher Washington housing permits
- Uncertainty in the baseline remains very high, mostly due to on-going concerns about Europe, China, and Federal fiscal policy
- Given the uncertainty around implementation, no new revenue is associated with I-502 at this time
- This forecast increases expected GF–S revenue by $59 million in the current biennium but decreases it by $19 million in the 2013-15 biennium

U.S. GDP Forecast Slightly Lower



Source: BEA, Blue Chip Economic Indicators March 2013; historical data through 2012

Oil prices: higher than in November but expected to decline



Source: DOE, ERFC March 2013 forecast; historical data through 2013Q1

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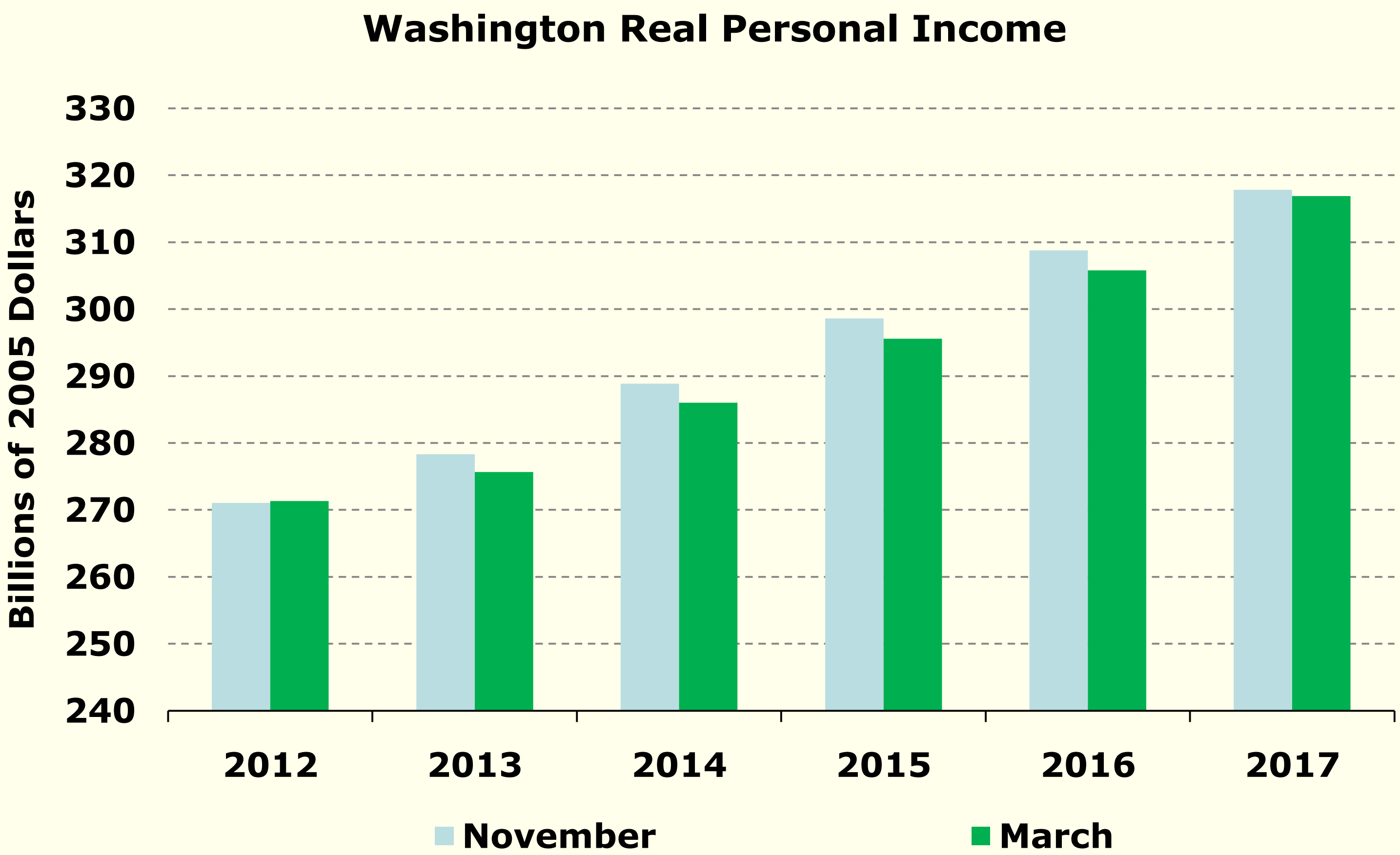
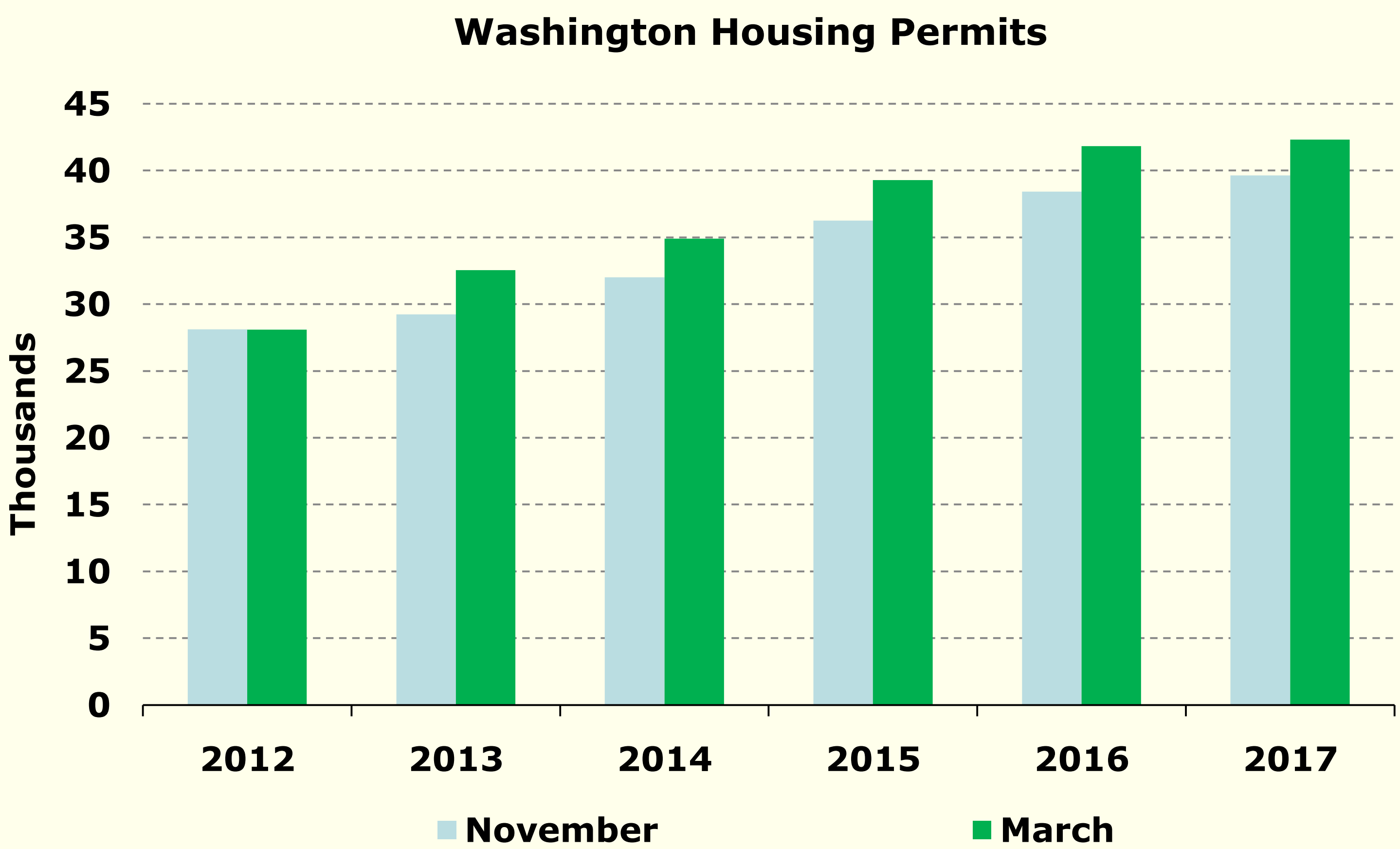
WA Personal Income Forecast Slightly Lower



Source: BEA, ERFC March 2013 Forecast; historical data through 2012

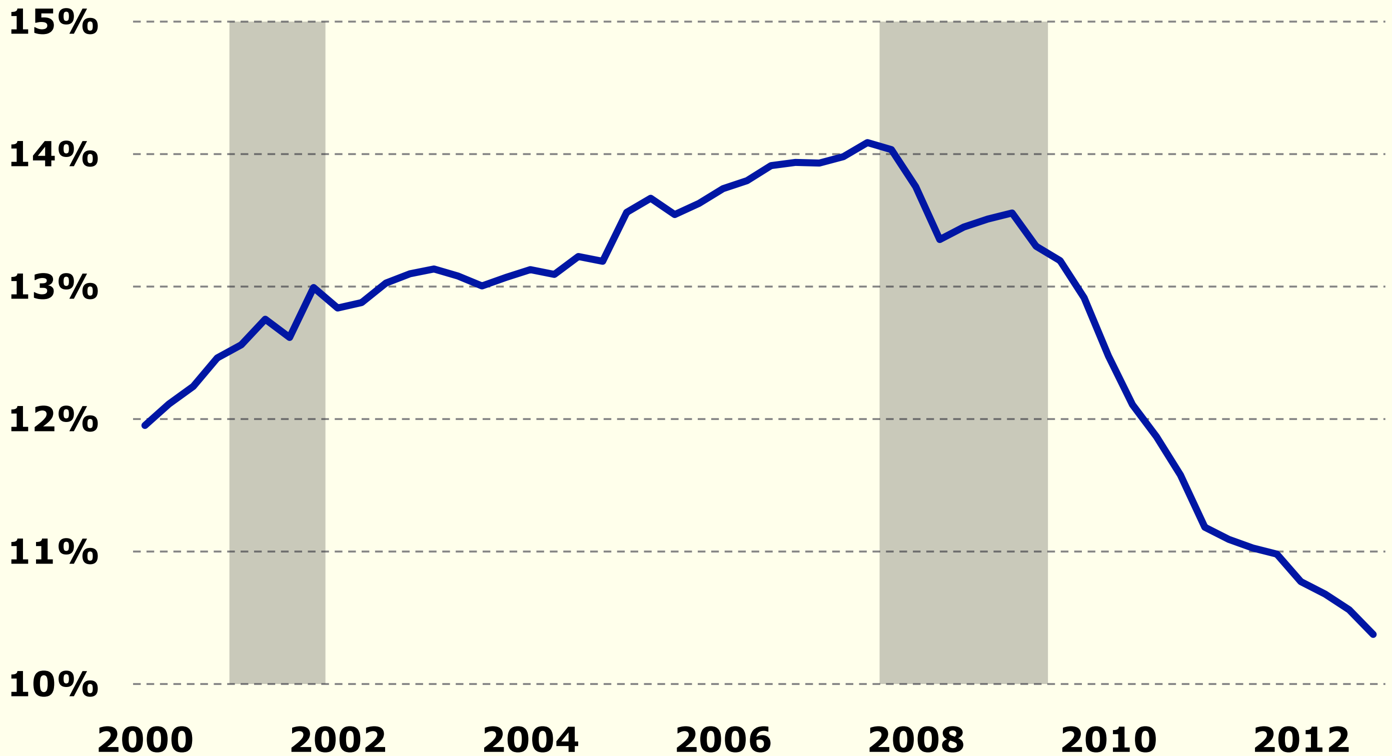
Washington Housing Permits Forecast is Slightly Higher



Source: ERFC March 2013 forecast; historical data through 2012

Household debt relative to income has declined

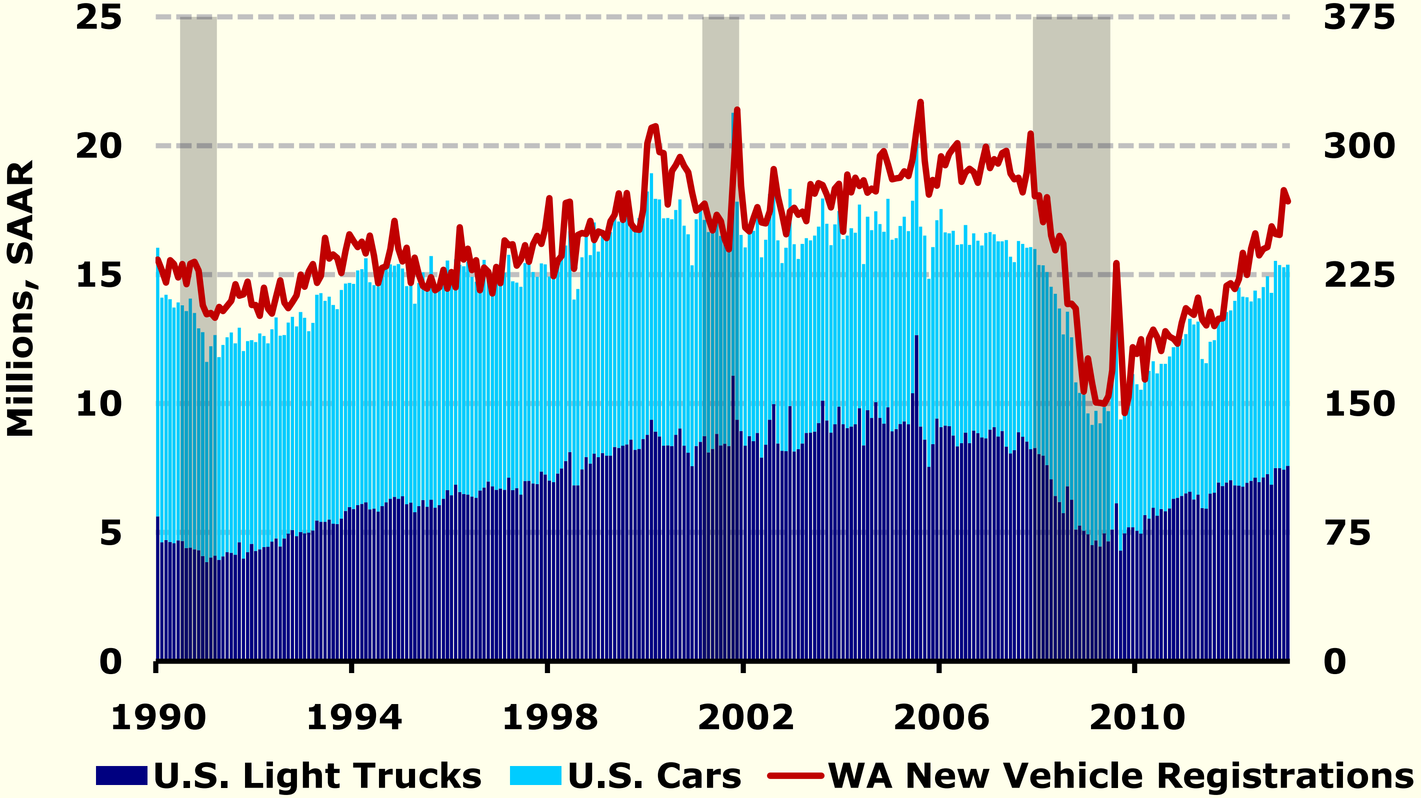
Mortgage & debt payments as a percent of disposable personal income



Source: Federal Reserve Board, data through 2012Q4

Vehicle sales continue their upward trend

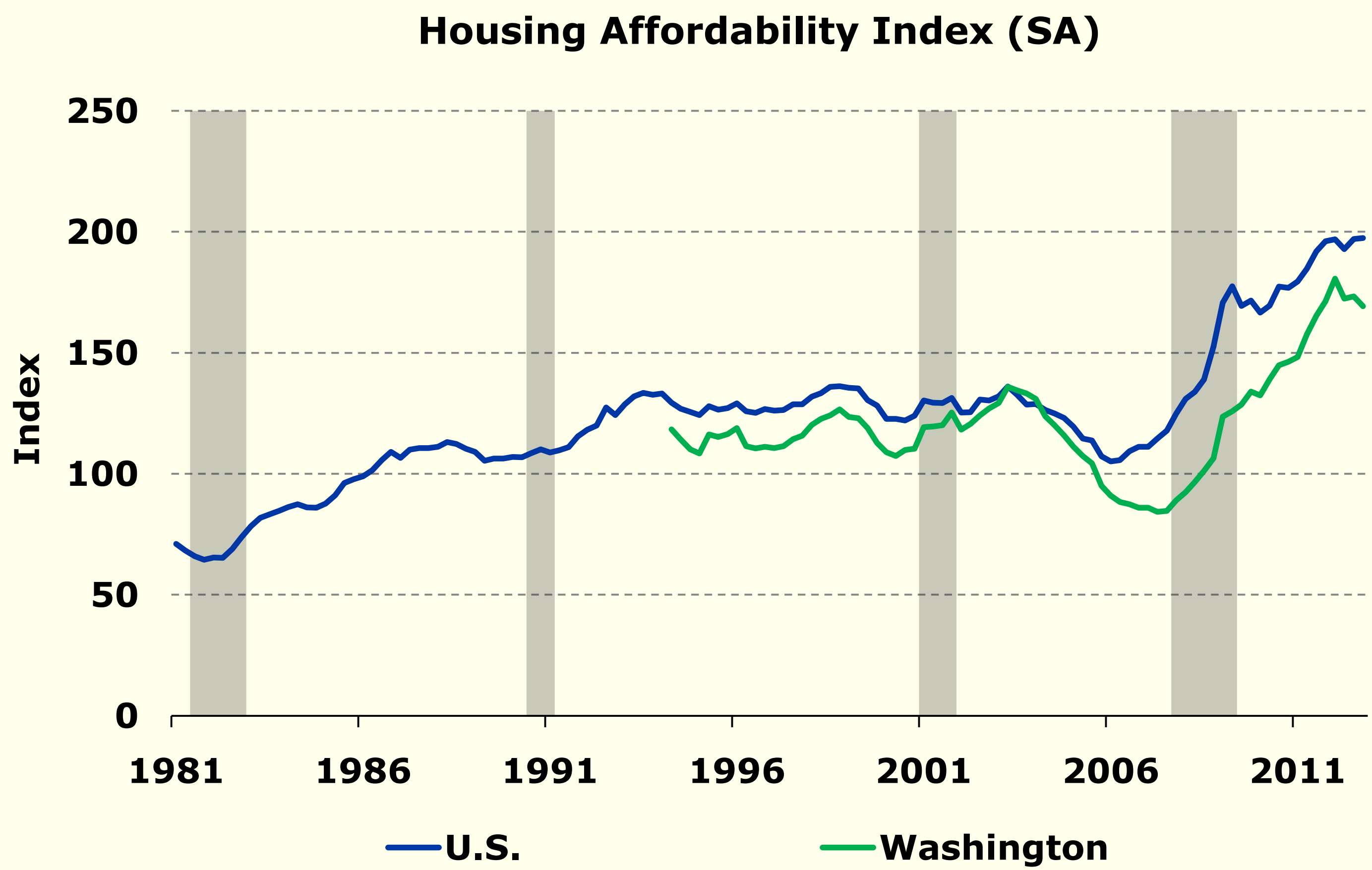
WA new vehicle registrations in February were up 20% year-over-year.



Source: Autodata Corporation, WA DOL; data through February 2013

Home affordability remains in record territory

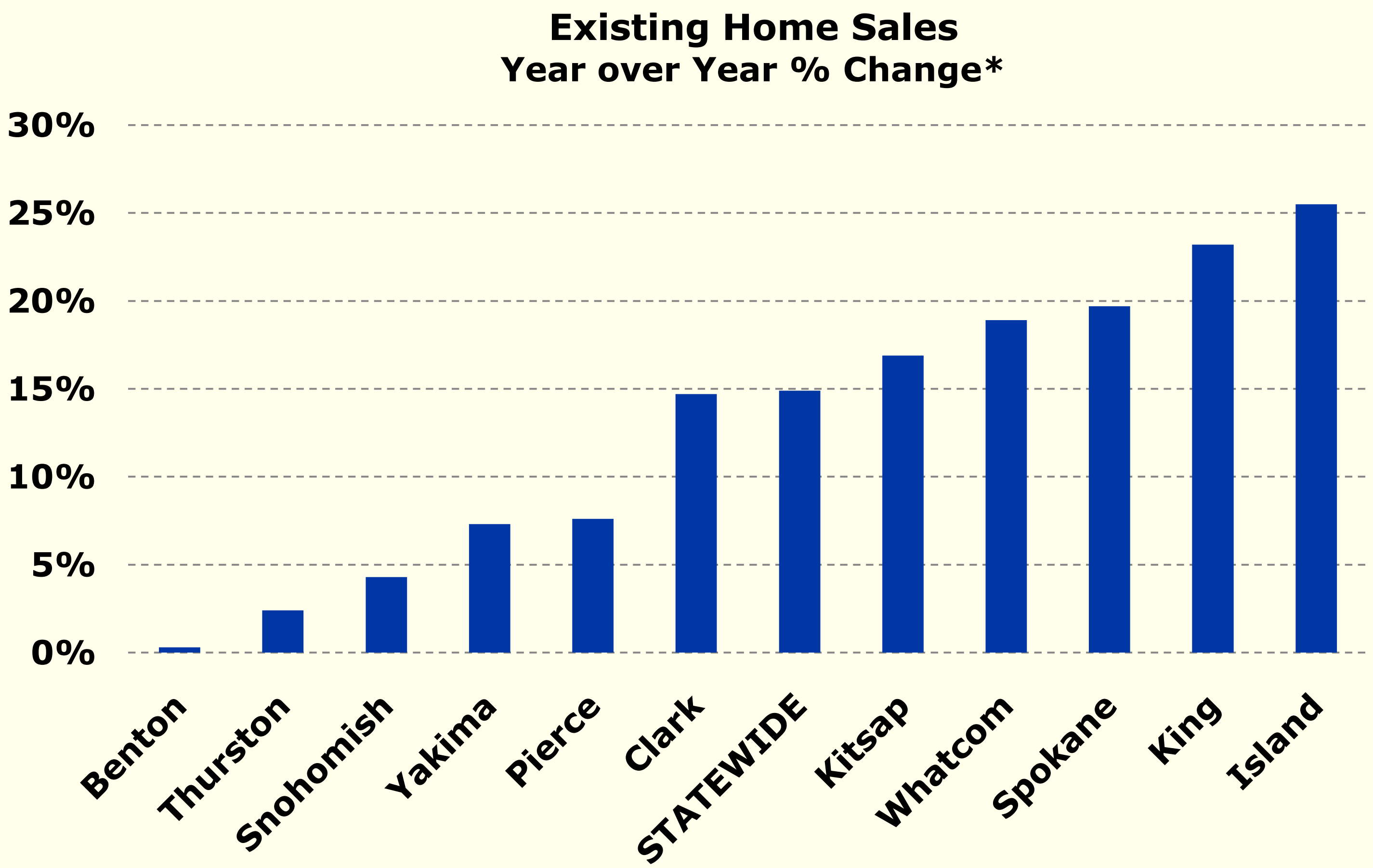
Affordability is 100 when the median income can just afford the median priced home. Above 100 means the median income can afford more than the median priced home



Source: National Association of Realtors, Global Insight, Washington Center for Real Estate Research, ERFC; data through 2012 Q4

Strong growth in existing home sales statewide

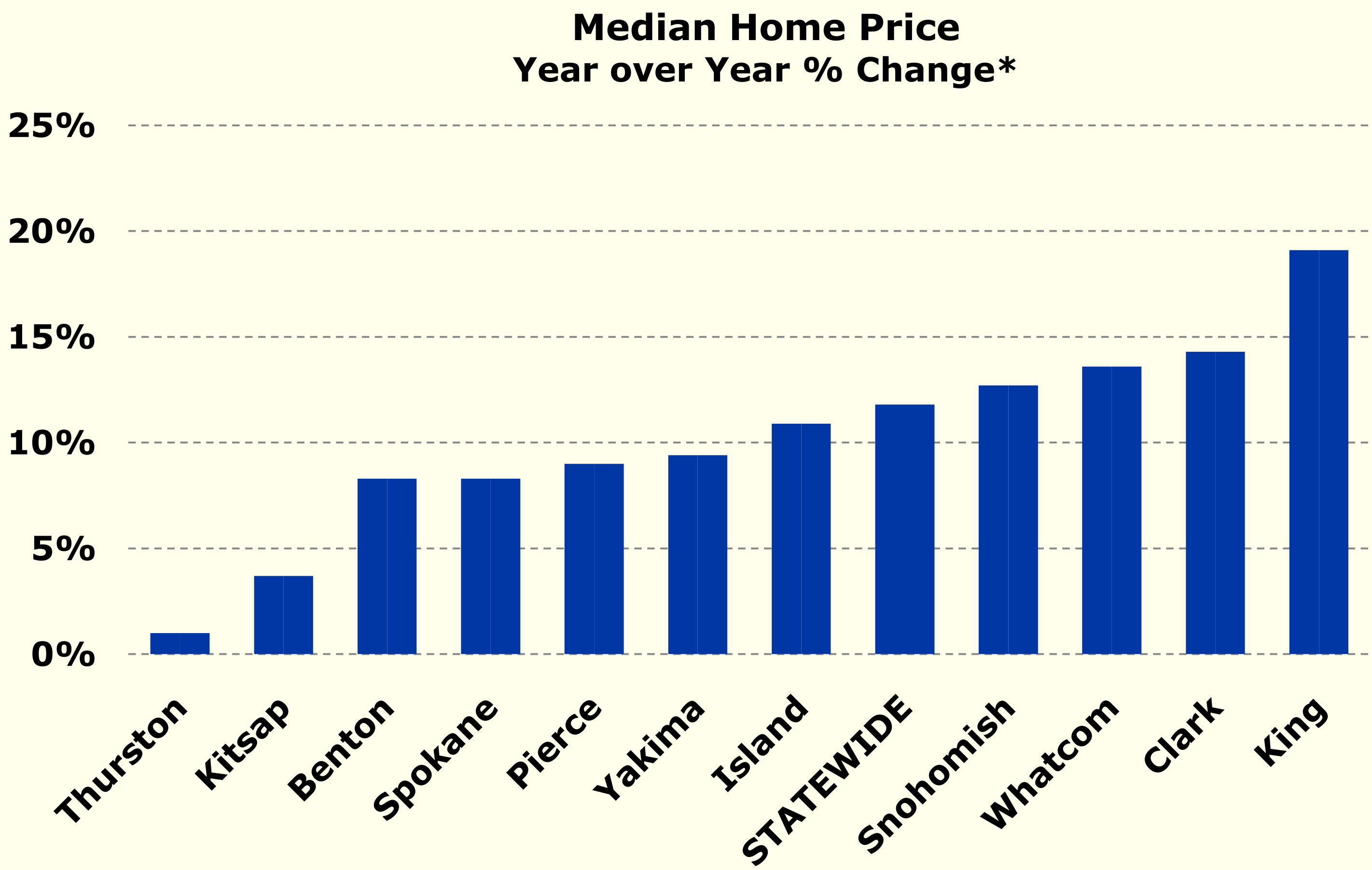
*Counties with 2% or more of existing home sales, 2012Q4



Source: WA Center for Real Estate Research, ERFC; 2012Q4 data

Considerable variation in home price changes across state

*Counties with 2% or more of existing home sales, 2012Q4



Source: WA Center for Real Estate Research, ERFC; 2012Q4 data

Federal budget and tax changes

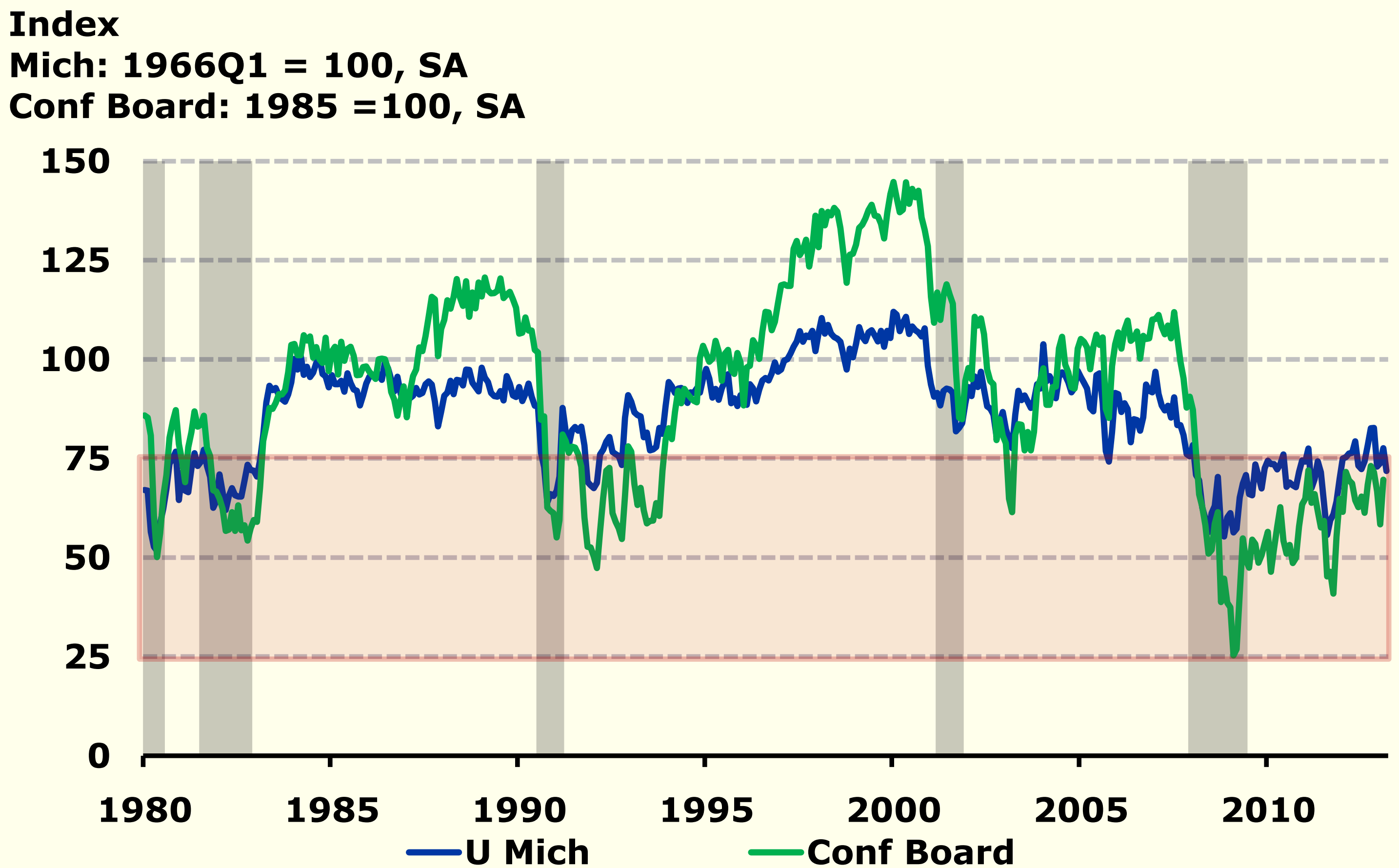
Tax increases effective January 1st

- Payroll tax: $1,000 more in taxes for family with $50,000 in wages
- Higher taxes on wages, capital gains for upper income ($450,000+) families

Deficit reduction

- Baseline assumes sequester through June
- $35 B in spending cuts for 2013
- Additional $912 B in taxes, spending cuts FFY 2014 - 2023

Consumer confidence remains fragile

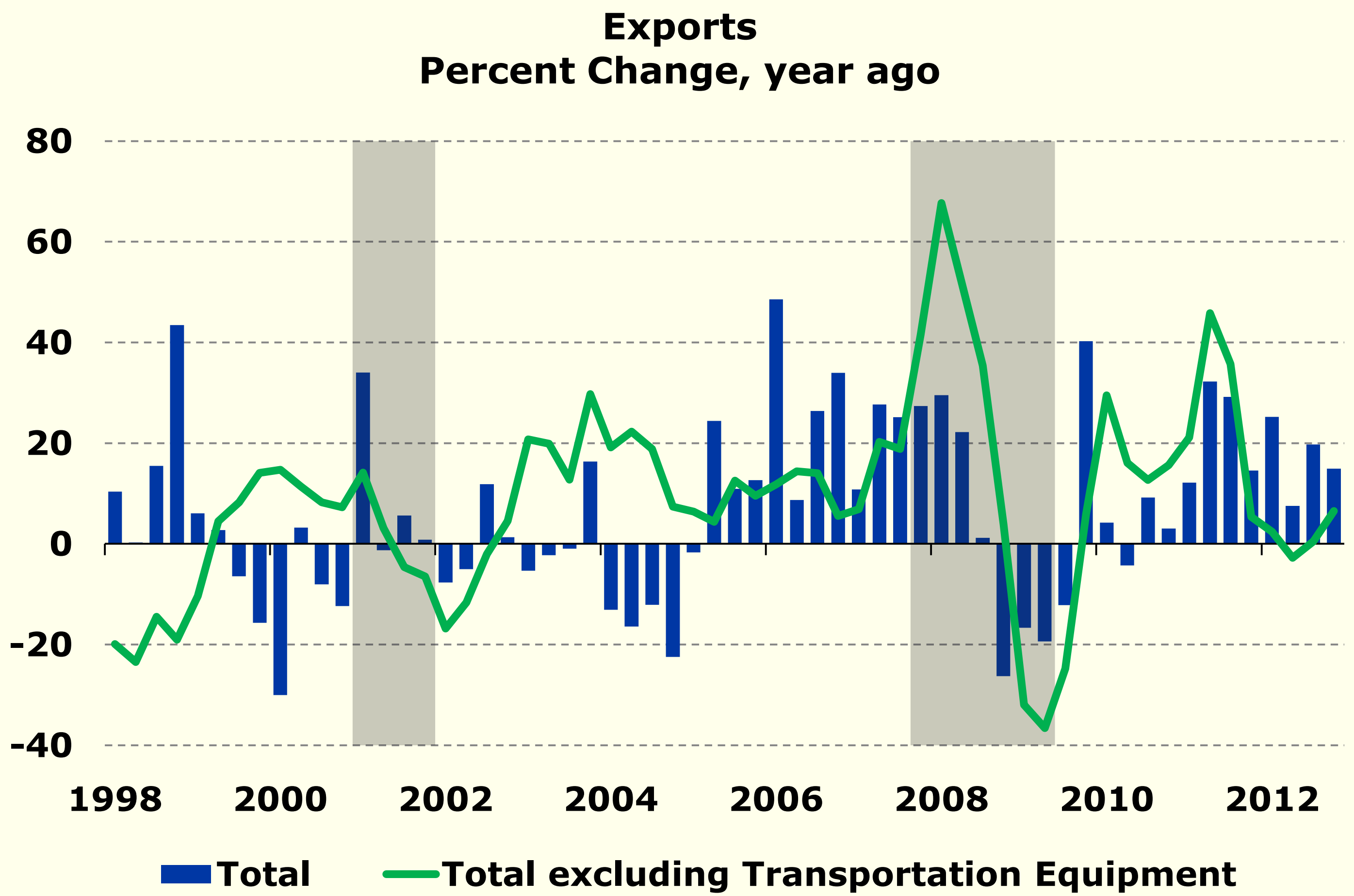


Source: University of Michigan; Conference Board, data through March 2013

WA export growth has slowed

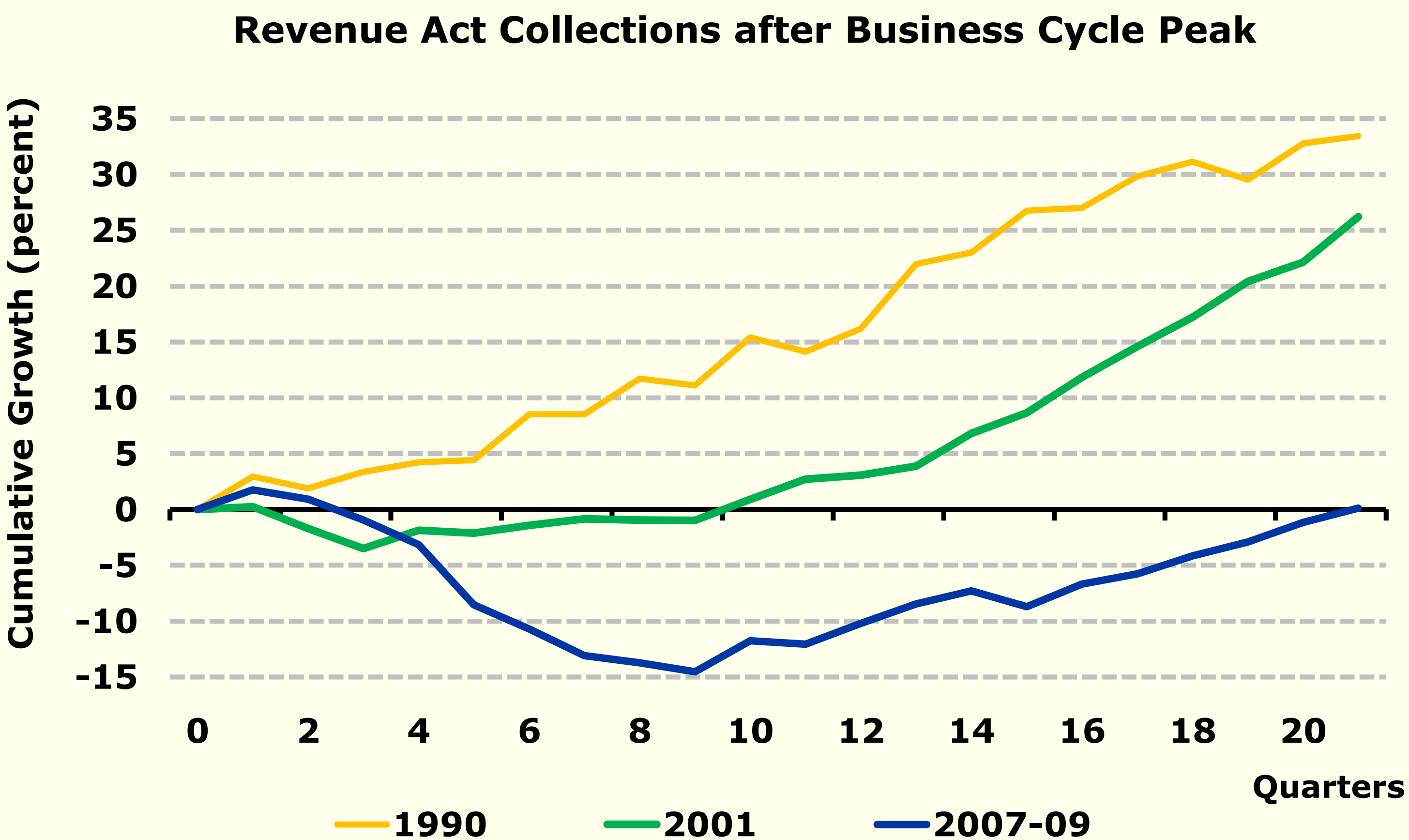
Trans. Equip. exports are up 24% year-over-year in Q4

All other exports are up just 7% year-over-year in Q4



Source: WISER Trade Data; data through 2012 Q4

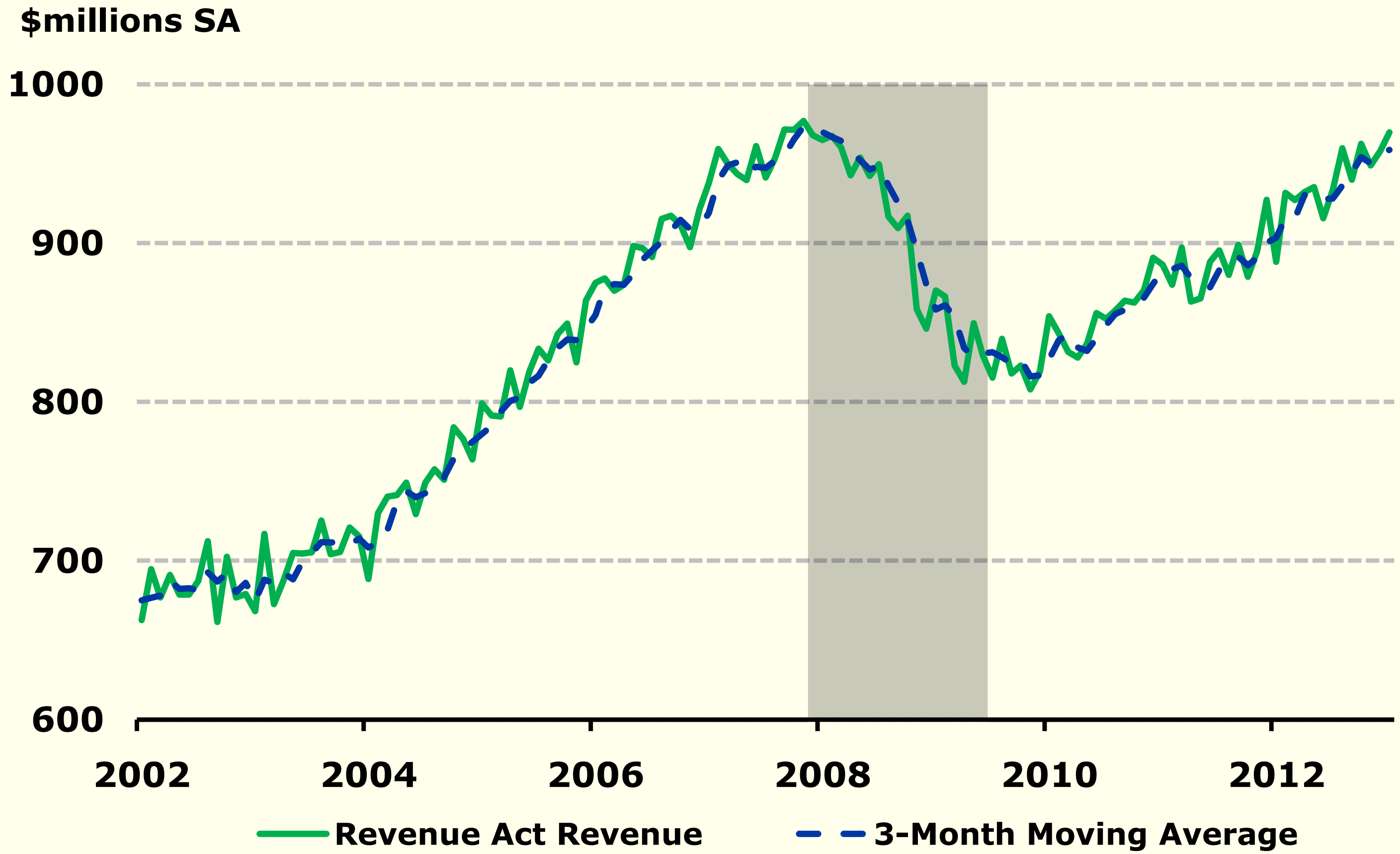
Revenue collections have been weak compared to past recoveries



Source: ERFC; data through 2012 Q4

Revenue Act collections are still on an upward trend

Collections were up 5.0% year-over-year for fourth quarter 2012 activity (November 11, 2012–February 10, 2013 collections)



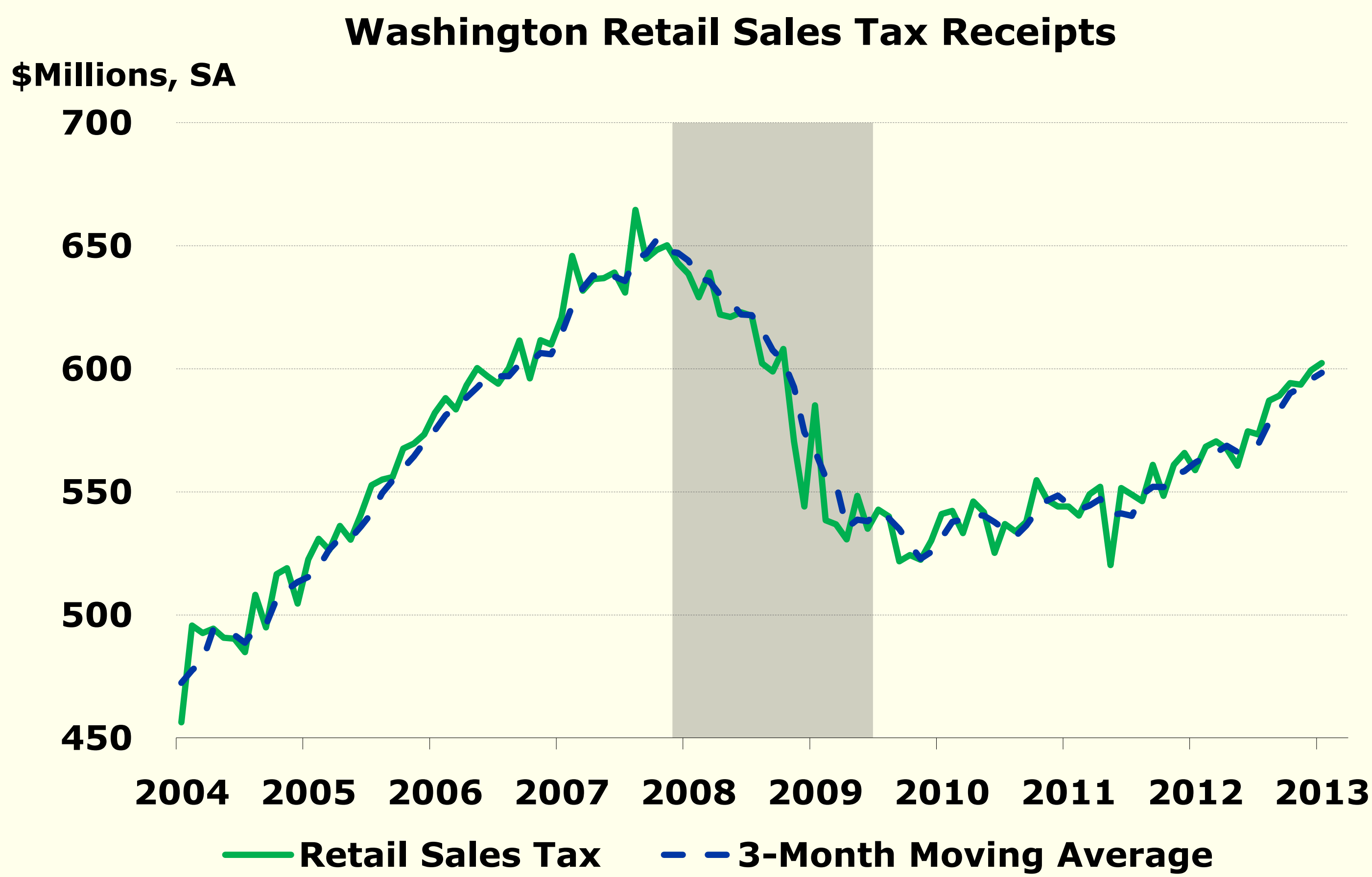
* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated January 2013 activity

WA sales tax growth improved in the fourth quarter of 2012

Sales tax collections were up 5.9% year-over-year for fourth quarter 2012 activity (November 11, 2012–February 10, 2013 collections)

Collections for third quarter activity were up 4.7% year-over-year



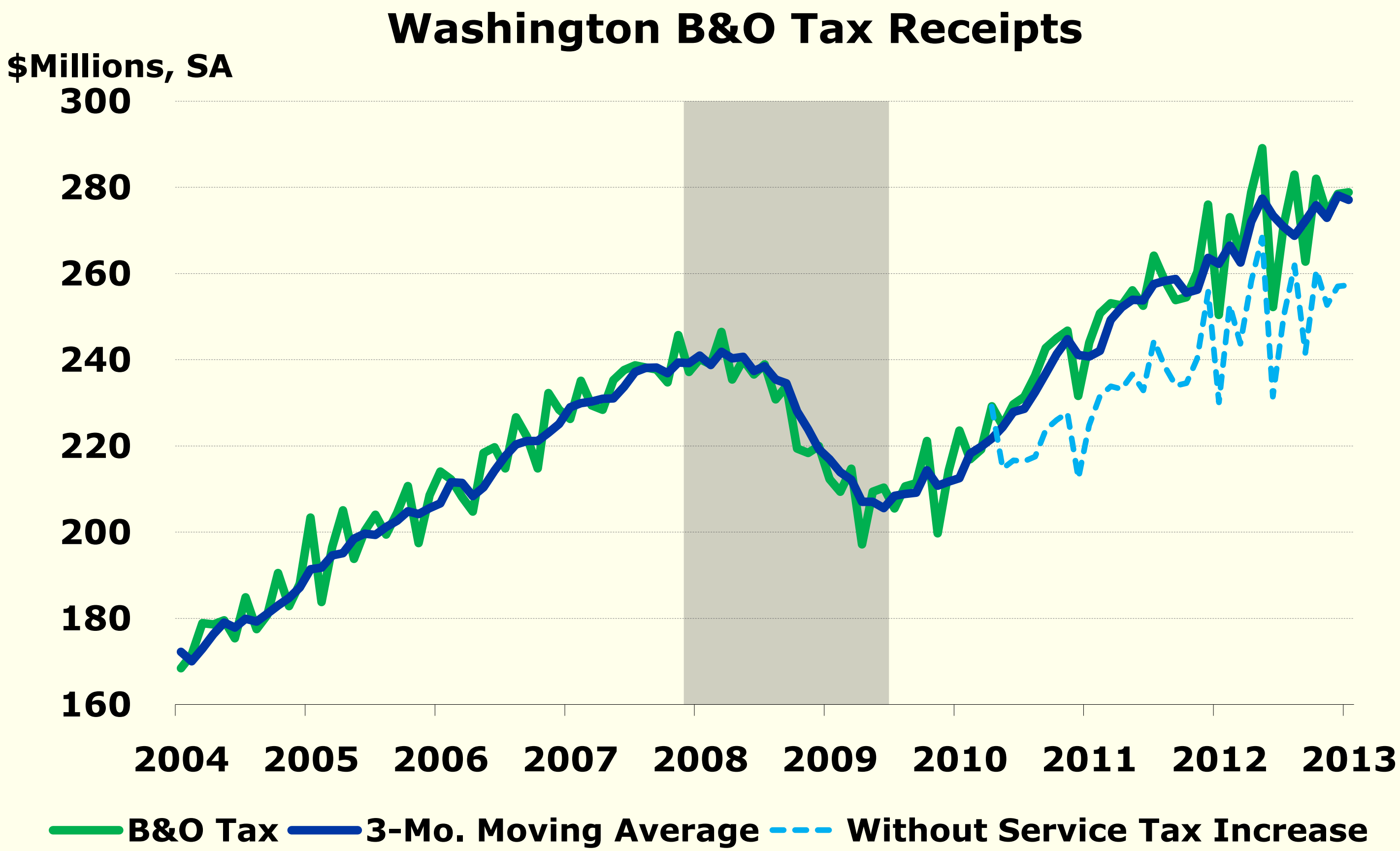
Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change

Source: ERFC; Monthly data through January 2013 preliminary activity

B&O tax growth also improved in the fourth quarter of 2012

B&O tax collections were up 7.6% year-over-year for fourth quarter 2012 activity (November 11, 2012–February 10, 2013 collections)

Collections for third quarter activity were up 4.9% year-over-year



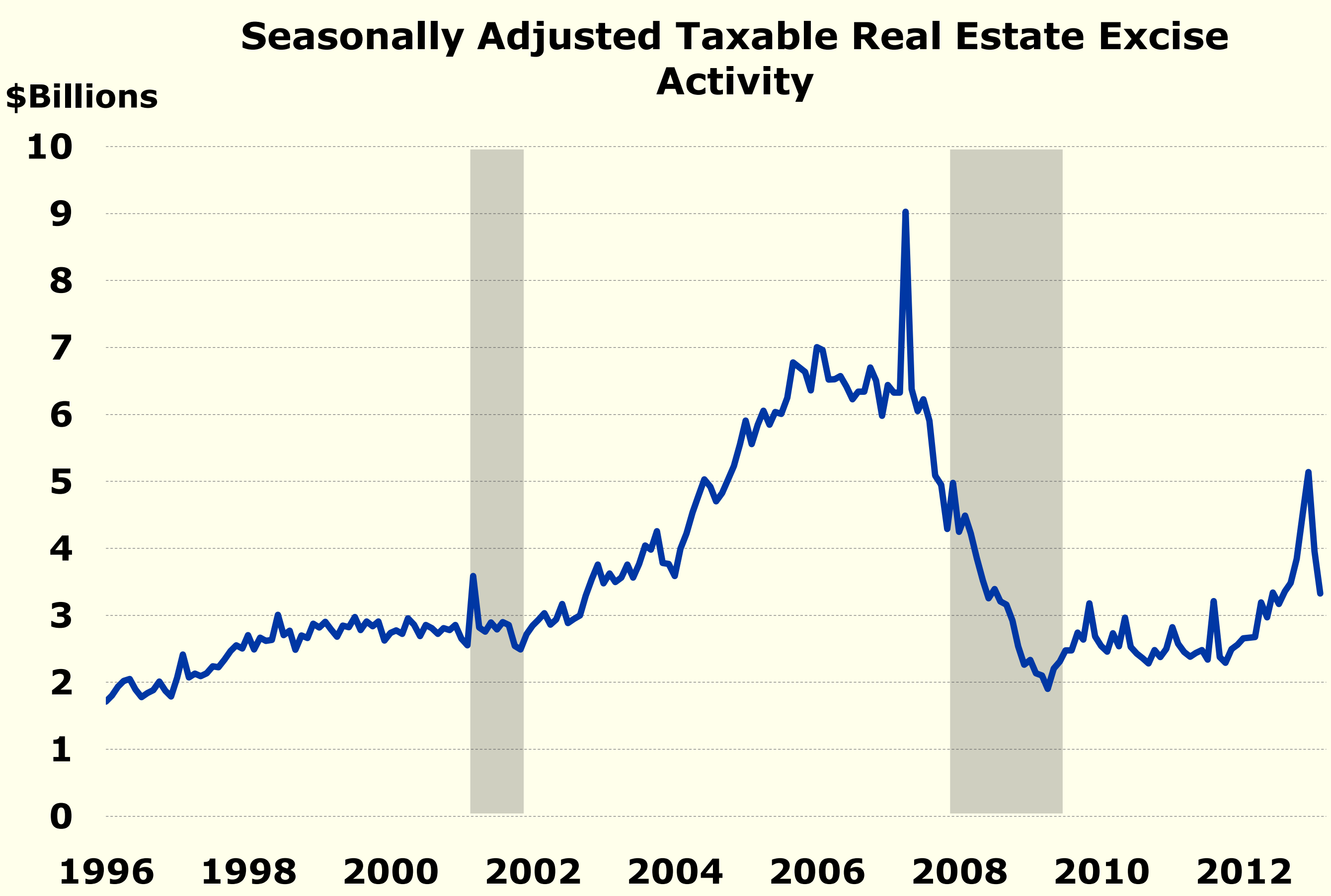
Source: ERFC; Monthly data through January 2013 preliminary activity

Adjusted for taxpayer frequency shift, amnesty payments, and recent large refunds

REET activity returning to prior trend after end-of-year rush

2012 real estate sales were elevated due to the incentive to claim capital gains before taxes increased in 2013.

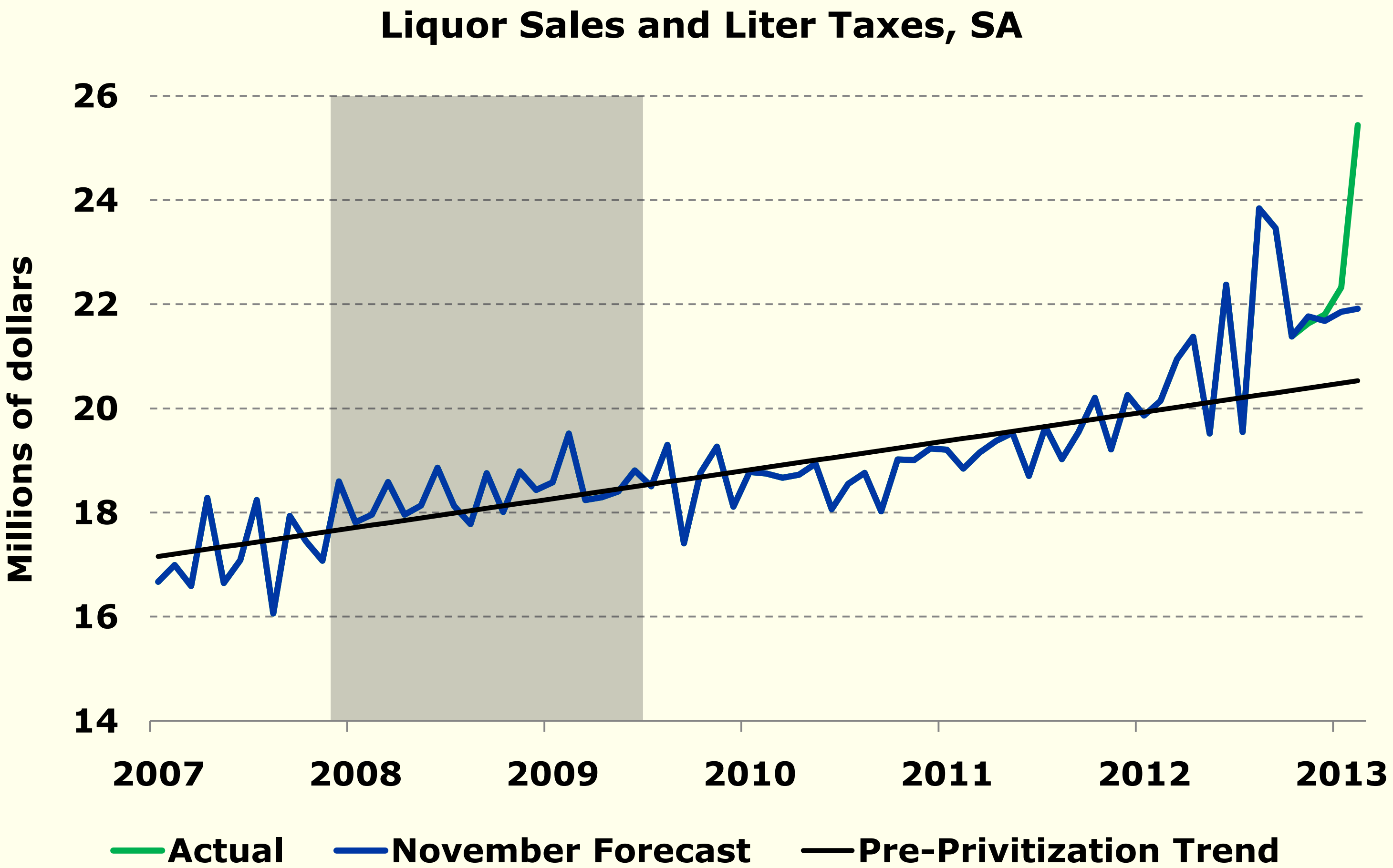
There was a rush in sales at the end of the year, particularly in commercial real estate and high-end residential properties.



Source: ERFC; Monthly data through February 2013 preliminary

Revenue for liquor sales has been volatile recently

Revenue was $3.6 million (3.9%) above the November forecast



Source: DOR, ERFC; data through February 2013

Forecast changes: General Fund State, 2011-2013 Biennium

November Forecast:

$30,477 million

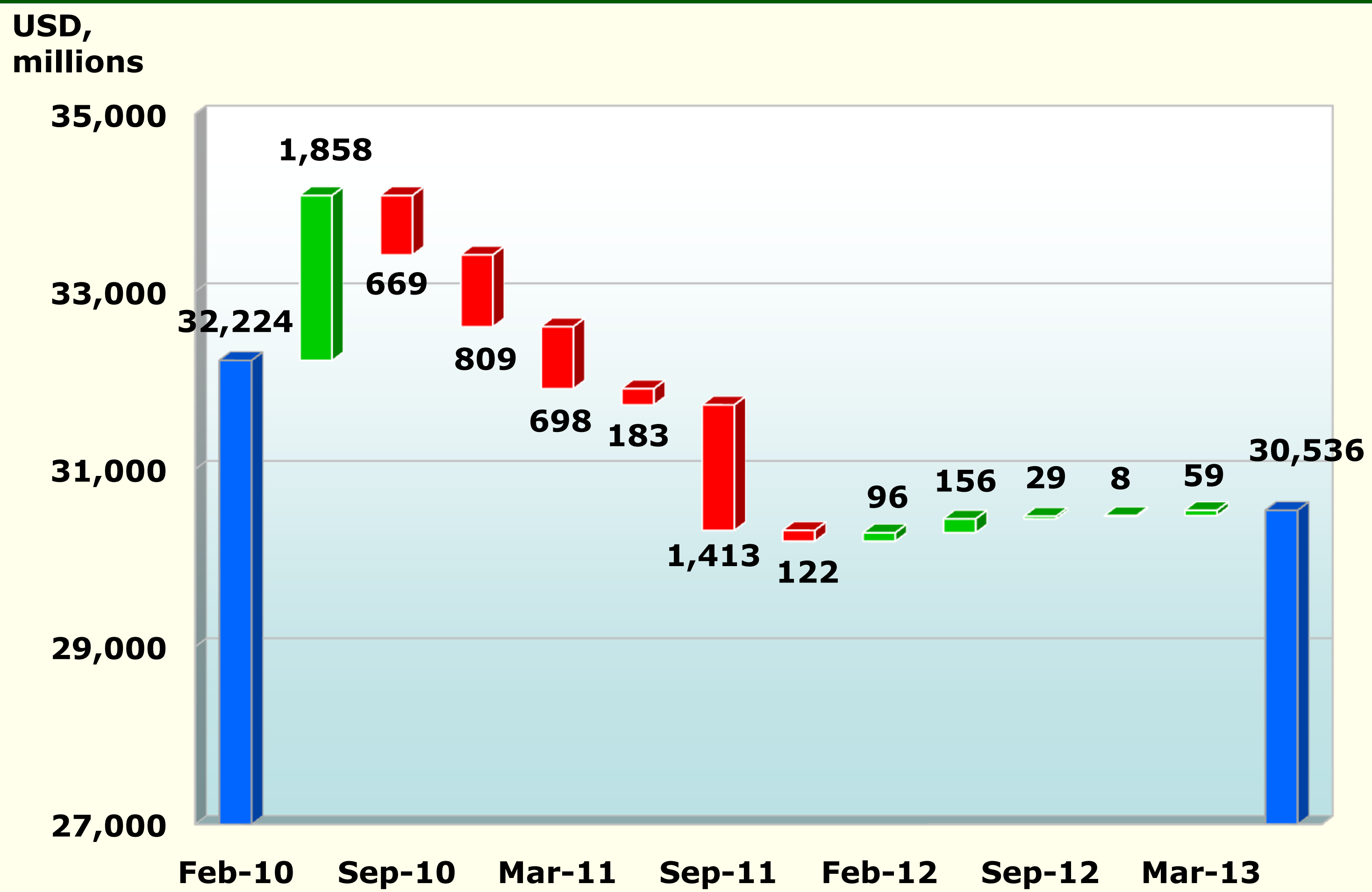
USD millions	March Forecast			
	Collection Experience	Forecast Change	Forecast	Total Change*
Dept. of Revenue	$126	($53)	$28,925	$73
All other agencies	($0)	($14)	$1,611	($14)
Total GF-S	**$125**	**($67)**	**$30,536**	**$59**

* Detail may not add to total due to rounding

Forecast revisions to the 2011-13 biennium

GF-S

New Definition



Source: ERFC March 2013 forecast

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Forecast changes: General Fund State, 2013-2015 Biennium

November Forecast:

$32,561 million

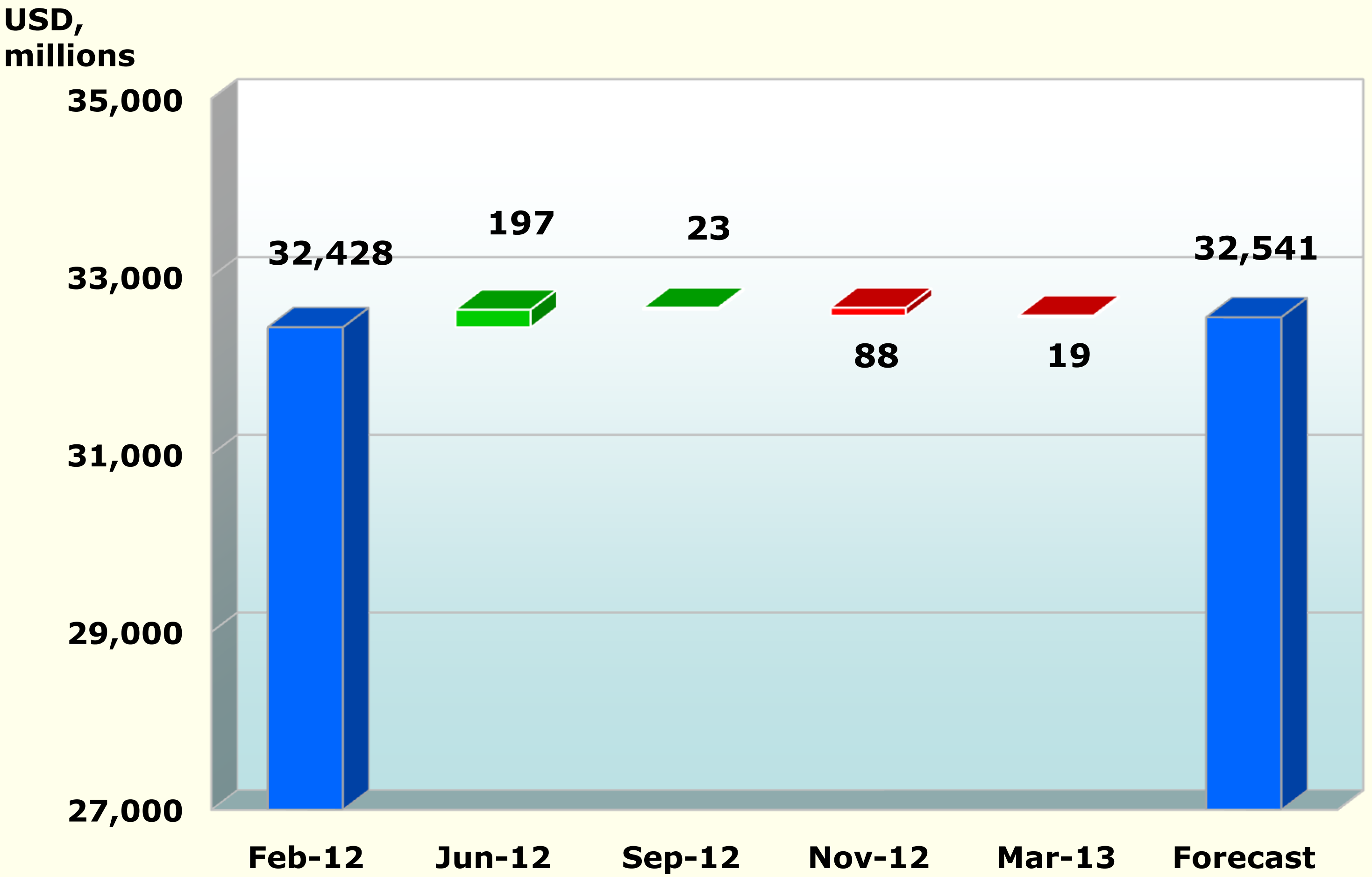
USD millions	**March Forecast**			
	Non-economic Change	Forecast Change	Forecast	Total Change*
Dept. of Revenue	$0	($38)	$30,963	($38)
All other agencies	$0	$18	$1,578	$18
Total GF-S	**$0**	**($19)**	**$32,541**	**($19)**

* Detail may not add to total due to rounding

Forecast revisions to the 2013-15 biennium

GF-S

New Definition



Source: ERFC March 2013 forecast

Forecast changes: General Fund State, 2015-2017 Biennium

November Forecast:

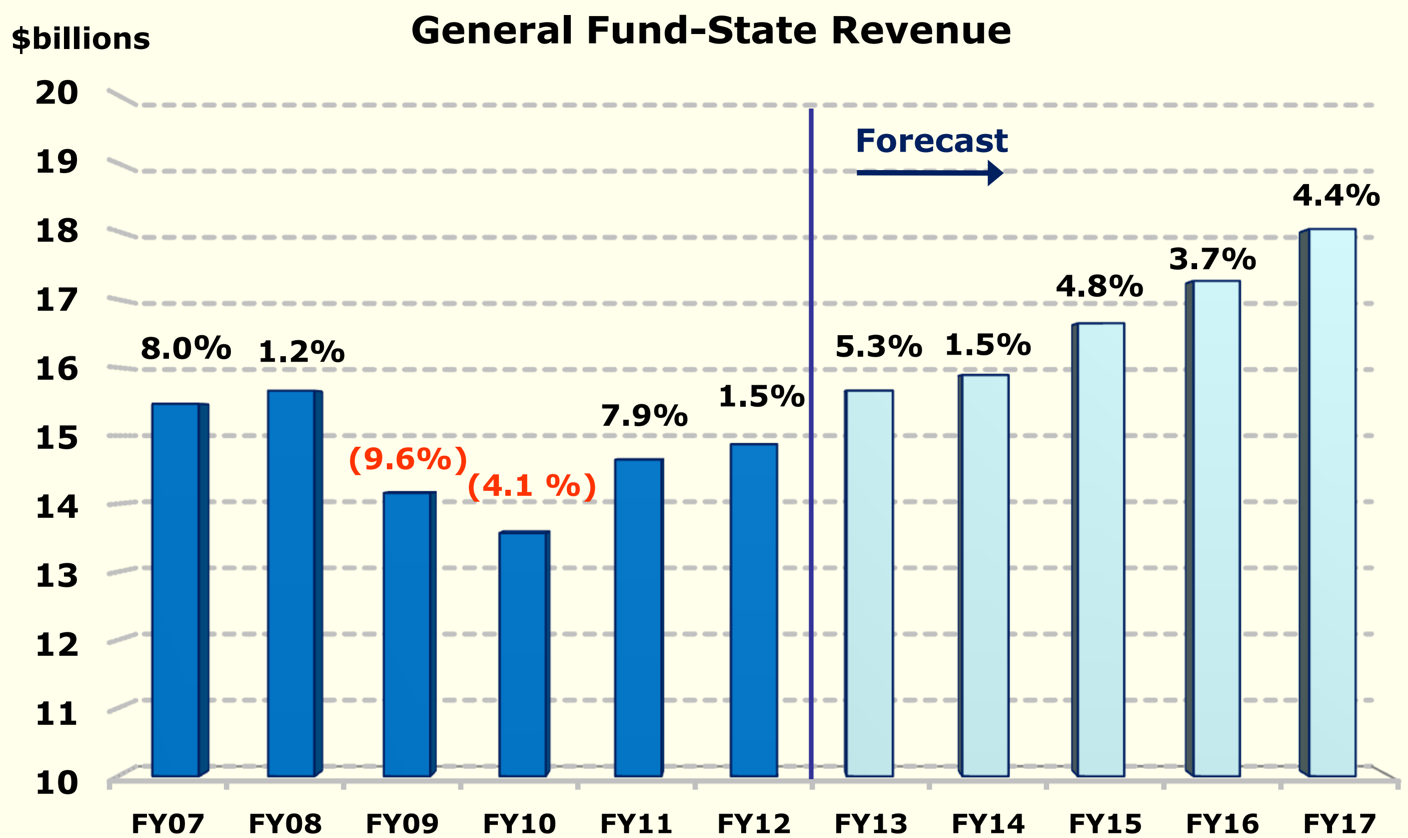
$35,355 million

USD millions	March Forecast			
	Non-economic Change	Forecast Change	Forecast	Total Change*
Dept. of Revenue	$0	($92)	$33,814	($92)
All other agencies	$0	$44	$1,492	$44
Total GF-S	**$0**	**($49)**	**$35,306**	**($49)**

* Detail may not add to total due to rounding

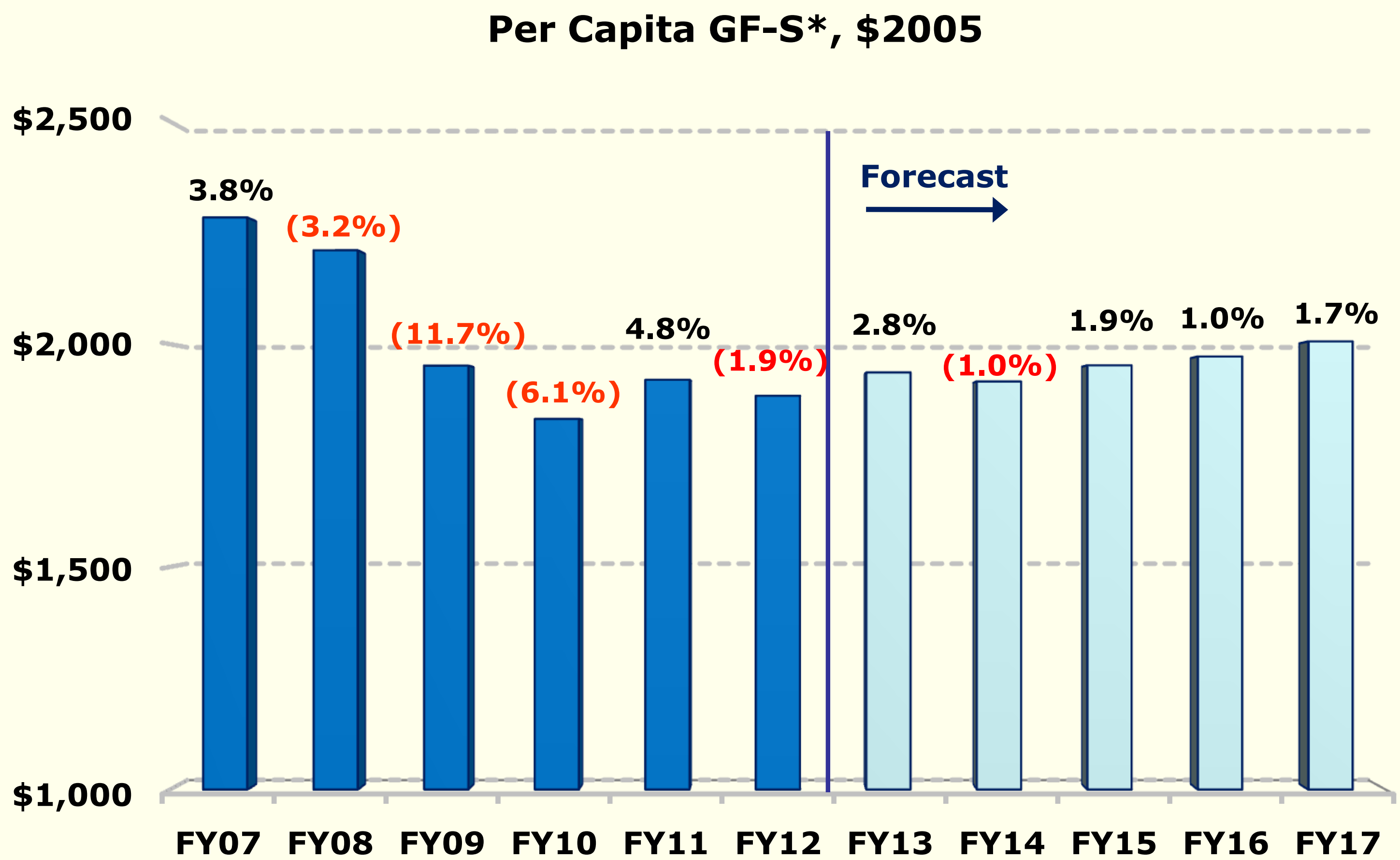
General Fund* forecast by fiscal year

FY 2011 revenues were boosted by the tax amnesty program and one-time transfers of non-GF-S funds into the GF-S



*General Fund & Related Funds for FY 07-09, General Fund – new definition for FY 10-17
Source: ERFC forecast, March 2013

Real Per Capita General Fund*-State Revenue



Source: ERFC forecast, March 2013

* General Fund & Related Funds for FY 2007-2009, General Fund – new definition, for FY 2010-2017

2011-13 Biennium alternative forecasts – cash basis

$Millions	2011-13 Biennium	Difference From the baseline
March 2013 Baseline (50%)	$30,536	
March 2013 Alternative Forecasts		
Optimistic (15%)	$30,833	$296
Pessimistic (35%)	$30,228	($308)
Probability Weighted Average	$30,473	($63)

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2013-15 Biennium alternative forecasts – cash basis

$Millions	2013-15 Biennium	Difference From the baseline
March 2013 Baseline (50%)	$32,541	
<u>March 2013 Alternative Forecasts</u>		
Optimistic (15%)	$35,267	$2,726
Pessimistic (35%)	$29,755	($2,787)
Probability Weighted Average	$31,975	($566)

Conclusion

- The forecast for the 2011-13 Biennium is $59 million higher than in November
- The forecast for the 2013-15 Biennium is $19 million lower than in November
- Revenues are expected to grow 8.2% between the 2009-11 and 2011-13 biennium and 6.6% between the 2011-13 and 2013-15 biennium
- We continue to forecast slow economic and job growth for both the national and state economies
- The level of uncertainty in the baseline remains extremely high, and downside risks outweigh upside risks

Questions

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